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TRADING

A stock and its index can go different ways

TECHNICAL ANALYSIS
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A SHAREMARKET adage has it that "a rising tide lifts all boats". In other words, when the sharemarket is on the rise it tends to take most stocks with it. Conversely, in a falling market, most stocks will fall along with the index.

This week Robert Brain, national director of the Australian Technical Analysts Association, takes a close look at that proposition and finds it wanting.

The thick blue line on today's chart represents the weekly performance of the XTL (the S&P/ASX 20 Index, or the top 20 stocks on the Australian Securities Exchange) from late May. Despite some giddying gyrations, the XTL has strengthened from a low point reached in late June. It is now 10 per cent above those June lows.

Mr Brain also plots the performance of two of the so-called "blue-chip" companies that make up the XTL index: Brambles and Woolworths.

Brambles, the green line on the chart (which has a left-hand price axis), has had a relatively strong year. It has tracked up with the top 20 index since reaching a low in August. It rose 40 per cent from that low point but fell away recently to be 35 per cent above the August lows. That represents a "much better performance than that of its index peers", Mr Brain says.

The red line on the graph is the consumer staple stock Woolworths (which has a right-hand price axis). Woolies hit a low in July, then rose 16 per cent by October before falling 12 per cent from there to finish only 2 per cent above that low in July. But if we compare it with a high reached in June, Woolworths investors have actually lost 7 per cent.

So while the top 20 index may have risen over the chart period, not all shares that make it up have done the same. Therefore, Mr Brain says, investors need to do more than simply rely on market momentum to make a dollar. Using some of the tools demonstrated in earlier technical analysis columns could help give investors an edge, he says.

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